



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN NO. 1361 (1951)

March 12, 1986

■ SUBJECT: Development of Realistic Long Range Farm Budgets

TO: All State Directors, FmHA

Purpose/Intended Outcome:

This AN is issued to provide guidance on the development of realistic long range agricultural commodity prices and input costs for determination of the feasibility of farm budgets following loan deferral. The intended outcome is to assure consistency in the consideration of deferral requests.

Comparison With Previous AN:

This AN replaces AN 1328 dated January 23, 1986, as a result of updated information. The projected changes in commodity prices are revised, as is the projected change in farm production expenses. Borrowers rejected under the factors in AN 1328 should be reconsidered for deferral using the revised factors. AN 1328 should be removed from the FmHA Instruction manual.

Implementation Responsibilities:

Realistic financial projections are essential to assure that the borrower will be able to begin scheduled payments after the deferral period. Projected levels of production and expense must be supported by the borrower's history.

The borrower's projected income and expense should be based on the borrower's records. If the borrower does not have income and expense records, the County Supervisor will use the ASCS records, ES data, County averages, or other reliable sources of data as the basis for income and expense projections.

Each State Director must establish the average price received for each agricultural commodity in 1985 by county, region, or district. In many cases, this data is available from State Departments of Agriculture, State Offices of the USDA Statistical Reporting Service, or Land Grant Universities. If County data is not available, the prices that most nearly reflect local area prices must be used. Speciality enterprise prices may only be available on a statewide basis.

Exhibit A to this AN provides a table of projected changes of price indices by commodity. The percentage change indicated between 1985 and 1991 must be applied to the established 1985 price to determine the expected 1991 price. The increase in cost factors must be applied to 1985 input costs.

Expiration Date: September 30, 1986

Filing Instructions: Preceding
FmHA Instruction 1951-A



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1361 (1951)

The following is an example of using price factors:

corn - local 1985 average price \$2.66/bu x 5.40% increase = .14 cents/bu
increase +2.66 = \$2.80/bu projected 1991 price.

If you have any questions, please contact Jim Radintz a FTS 8-475-4010.



VANCE L. CLARK
Administrator

Attachment

Sent via Electronic Mail on 03/14/86 at 3:54 pm. by DASD (IMPS). State
Directors will distribute to all District Directors and County Supervisors.

PROJECTED CHANGES FROM 1985 TO 1991 IN CASH COMMODITY PRICES

<u>Commodity</u>	<u>Projected Change by 1991</u>	<u>Commodity</u>	<u>Projected Change</u>
Corn	+ 5.4%	Tobacco	+14.7%
Soybeans	+10.9%	Milk	- 8.2%
Wheat	+ 3.4%	Cows	+14.5%
Barley	+ 5.4%	Steers	+14.5%
Oats	+ 5.4%	Barrows and Gilts	+14.5%
Milo	+ 5.4%	Sows	+14.5%
Cotton	+ 4.9%	Lambs	+14.5%
Rice	-28.8%	Wool	+11.1%
Potatoes	+62.2%	Broilers	+37.4%
Dry Beans	+62.2%	Turkeys	+37.4%
Fruit	+19.4%	Eggs	+37.4%
Vegetables	+36.7%	Peanuts (quota)	+14.0%
Hay	+ 8.5%	Peanuts (non-quota)	+24.0%
Non-farm income	+30%		

Borrowers with a history of participation in Government Commodity programs should have deficiency payments included in their plan, up to the \$50,000 statutory limit. The following 1991 "target" prices are anticipated as a basis for planning with borrowers participating in Government Commodity programs.

corn - \$2.75/bu.	cotton - \$.729/lb.
wheat - \$4.00/bu.	rice - \$10.71/cwt.

County Offices may contact local ASCS offices for information on localized calculations for deficiency payments.

The following tables provide in-depth information for commodity programs during the next 5 years.

PROJECTED CHANGES IN INPUT COSTS

Production prices paid by farmers	+ 1.48%
Family living and other expenses	+30.00%

CORN

LOAN RATES

1986 \$2.40/bu. basic rate \$2.16 maximum rate \$1.92 minimum rate
 --The Secretary is required to reduce the \$2.40 basic loan by 10% to \$2.16; he is authorized to reduce another 10% to \$1.92

1987-90

- A. Secretary sets the basic loan at 75%-85% of 5-yr. ave. market price (hi&lo years out). The reduction in that basic rate is limited to 5% below the previous year's basic loan rate--but the Secretary may reduce the year's effective loan rate more, up to a total of 20%:
 --if market prices the previous crop year did not exceed 110% of the year's loan rate or
 --if the Secretary determines that the basic loan rate should be reduced to make corn more competitive on world markets.

- B. Secretary may permit farmers to repay their price support loans at the world price, but not lower than 70% of the loan level. The gain from repaying at the lower rate is exempt from payment limits.

1986-90 Price support loans for grain sorghum, barley, oats, and rye will be set at fair value in relation to corn.

TARGET PRICES

1986-87 \$3.03

1988-90 Secretary may reduce target prices 2% in 1988 \$2.97 minimum
 may reduce target prices 3% in 1989 \$2.88 minimum
 may reduce target prices 5% in 1990 \$2.75 is minimum

DEFICIENCY PAYMENTS

1986 Secretary must pay part (up to 50%) of the expected deficiency payment in advance and may offer to pay some of it "in kind."

1986-90 * Any increase in deficiency payments resulting from the reduction in 1986 loan rates is exempt from the \$50,000 payment limit per person; in 1987-90, any increase in deficiency payments resulting from loan rate reductions of more than 5% from the previous year are exempt.

* Not more than 5% of the total deficiency payments for any crop of feed grain may be made "in kind" in feed grains.

* If growers underplant their permitted corn acres by 8% to 50%, they will get deficiency payments on the 8% to 50% underplanted acres that are devoted to nonprogram crops or conserving uses.

1987-90 Advance payments, part "in kind," are discretionary with Secretary.

ACREAGE REDUCTION

1986 15% min. 20% max. required if corn carryover exceeds 2 bil. bu.
 --2.5% of acreage reduction must be "in kind" paid diversion.
 --Secretary may provide for voluntary paid diversion (may be on a bid basis), even beyond the 20% maximum acreage cut.
 --Haying and grazing will be permitted on diverted acres if the State ASC Committee requests.

1987-90 12.5% max. if corn carryover is under 2 bil. bu. 12.5% min. and 20% max. if the corn carryover exceeds 2 bil. bu.
 --Secretary may provide for voluntary paid diversion (may be on a bid basis), even beyond the maximum acreage cut.
 --Grazing diverted acres will be permitted if State ASC requests; Secretary may permit haying if State ASC requests.

OTHER

1986-90 * If an acreage limitation program is in effect, feed grain participants can't exceed their base acreage of other program crops.
 * Acreage base = ave. of planted or considered planted last 5 years, but may not exceed average of the most recent 2 years.
 * Program yield 1986-87 = average 1981-85 program yield (hi&lo years out). In 1988-90 Secretary may phase in most recent actual yield.

WHEAT

LOAN RATES

- 1986 \$3.00/bu. basic rate \$2.70 maximum rate \$2.40 minimum rate
 --The Secretary is required to reduce the \$3.00 basic loan by 10% to \$2.70; he is authorized to reduce another 10% to \$2.40.
- 1987-90 A. Secretary sets the basic loan at 75-85% of 5-yr. ave. market price (hi&lo years out). The reduction in that basic rate is limited to 5% below the previous year's basic loan rate--but the Secretary may reduce the year's effective loan rate more, up to a total of 20%:
 --if market prices the previous crop year did not top 110% of the year's loan rate or
 --if the Secretary determines that the basic loan rate should be reduced to make wheat more competitive on world markets.
- B. Secretary may permit farmers to repay their price support loans at the world price, but not lower than 70% of the loan level. The gain from repaying at the lower rate is exempt from payment limits.

TARGET PRICES

- 1986-87 \$4.38/bu.
- 1988-90 Secretary may reduce target prices 2% in 1988 \$4.29 minimum
 may reduce target prices 3% in 1989 \$4.16 minimum
 may reduce target prices 5% in 1990 \$4.00 is minimum
- 1986-90 Secretary is allowed to offer varying target price levels based on difference levels of acreage reduction, and may offer varying target price levels based on the size of producers' production.

DEFICIENCY PAYMENTS

- 1986: Secretary must pay part (up to 50%) of the expected deficiency payment in advance and may offer to pay some of it "in kind."
- 1986-90 * Any increase in deficiency payments resulting from loan rate reductions of more than 5% from the previous year are exempt.
 * Not more than 5% of the total deficiency payments for any crop of wheat may be made "in kind" in wheat.
 * If growers underplant their permitted wheat acres by 8% to 50%, they will get deficiency payments on the 8% to 50% underplanted acres that are devoted to nonprogram crops or conserving uses.
- 1987-90 Advance payments, part "in kind," are discretionary with Secretary.

ACREAGE REDUCTION

- 1986 17 1/2% minimum 25% max. required if carryover exceeds 1 bil. bu.
 --2.5% of acreage reduction must be "in kind" paid diversion.
 --Secretary may provide for voluntary paid diversion (may be on a bid basis), even beyond the 25% maximum acreage cut.
 --Those who plant before program is announced may idle 10% more acreage for paid diversion of \$2 per bu.
 --Haying and grazing will be permitted if State ASC requests.
- 1987 20% maximum if carryover is under 1 bil. bu. 20% min. and 27 1/2% max. if carryover exceeds 1 bil. bu. Paid diversion may exceed the max.
- 1988-90 20% maximum if carryover is under 1 bil. bu. 20% min. and 30% max. if carryover exceeds 1 bil. bu. Paid diversion may exceed the max.
- 1987-90 Grazing if State ASC requests; haying if Secretary approves.

OTHER

- 1986-90 * If an acreage limitation program is in effect, wheat participants can't exceed their base acreage of other program crops.
 * Acreage base + ave. of planted or considered planted last 5 years, but may not exceed average of the most recent 2 years.
 * Program yield 1986-87 + average 1981-85 program yield (hi&lo) years out). In 1988-90, Secretary may phase in most recent actual yield.

REFERENDUM: Secretary required to poll growers by 7/1/86 to find if they favor mandatory production limits that would result in wheat prices not lower than 125% the cost of production. Secretary had discretion whether to hold a referendum.

UPLAND COTTON

LOAN RATES Not less than 55¢ per lb.

1986

1987-90

- A. Loan rate is the lower of 85% of the 5-year average U.S. spot market price (hi&lo years out) or 90% of the adjusted Northern European price quotations--except if the European price is lower, the loan rate may be set at any level between the two.
- B. Annual loan rate reductions are limited to no more than 5% of the previous year's loan rate.
- C. Minimum loan rate floor is 50¢ per lb.

MARKET ENHANCEMENT PLANS

1986

If cotton is not competitive on world markets at the base loan rate, the Secretary may choose one of these two market enhancement plans for growers to repay support loans:

Plan A Secretary may permit growers to repay their price support loans by as much as 20% less than the loan rate.

Plan B Secretary may vary growers' loan repayment rates throughout the year to keep pace with world markets. With Plan A or Plan B:

1987-90 Secretary may use either Plan A or Plan B--but if world prices are less than 80% of the loan level, Secretary may set repayment rate at any level between the world price and 80% of the loan and must use marketing certificates to make up the difference.

TARGET PRICES

1986 Not less than 81.0¢ per lb. 1989 Not less than 74.5¢ per lb.

1987 Not less than 70.4¢ per lb. 1990 Not less than 72.9¢ per lb.

1988 Not less than 77.0¢ per lb.

ACREAGE REDUCTION

1986-90 Secretary may require 25% maximum acreage reduction to aim for carryover of 4 mil. bales, and may offer voluntary paid diversion (may be on a bid basis), in addition to the 25% maximum acreage reduction.

DEFICIENCY PAYMENTS

1986-90 * Not more than 5% of the total deficiency payments for any crop of upland cotton may be made "in kind" in upland cotton.

* Secretary must pay part (up to 50%) of expected 1986 deficiency payments in advance; in later years, payments are optional.

* If growers underplant their permitted cotton acres by 8% to 50%, they will get deficiency payments on the 8% to 50% underplanted acres that are devoted to nonprogram crops or conserving uses.

* The gain from repaying loans at less than the loan rate is exempt from the \$50,000 payment limitation.

OTHER

1986-90 * Secretary may require growers not to exceed bases for other crops.

* Acreage base + ave. of planted or considered planted last 5 years (excluding zero plantings), but may not exceed the average of the most recent 2 years (including zero plantings in those 2 years).

* Program yield 1986-87 = average 1981-85 program yield (hi&lo years out). In 1988-90 Secretary may phase in most recent actual yield.

RICE

LOAN RATES

1986

\$7.20 per cwt.

1987-90

- A. Loan rate is 85% of 5-year ave. market prices (hi&lo) years out).
- B. Annual loan rate reductions are limited to no more than 5% of the previous year's loan rate (1987 minimum loan = \$6.84).
- C. Minimum loan rate is \$6.50 per cwt.

MARKET ENHANCEMENT PLANS

1985

Starting April 15, 1986, the Secretary must permit growers to repay their price support loans at the world price if it is lower than the loan rate. Producers may be required to purchase certificates for CCC rice equal to the cash difference between the loan level and the repayment rate.

1986-87

If the world price is below the loan rate, the Secretary must permit growers to repay their loans at world prices or at 50% of the loan rate, whichever is higher. The Secretary may require producers to purchase negotiable PIK certificates for up to one-half the difference between the loan and the loan repayment rate.

1988

If the world price is below the loan rate, the loan repayment rate will be 60% of the loan, or the world price, whichever is higher. PIK certificate purchase may apply as in 1986-87.

1989-90

If the world price is below the loan rate, the loan repayment rate will be 70% of the loan, or the world price, whichever is higher. PIK certificates purchase may apply as in 1986-87.

1986-90

Secretary must provide marketing certificates (PIK or cash payments) if the loan repayment levels are above the world price.

TARGET PRICE

1986

Not less than \$11.90 per cwt. 1989 Not less than \$10.95 per cwt.

1987

Not less than \$11.66 per cwt. 1990 Not less than \$10.71 per cwt.

1988

Not less than \$11.30 per cwt.

ACREAGE REDUCTION

1986-90

Secretary may require 35% maximum acreage reduction to aim for a carryover of 30 mil. cwt. and may offer voluntary paid diversion (may be on a bid basis), in addition to the 35% maximum acreage reduction.

DEFICIENCY PAYMENTS

1986-90

- * Not more than 5% of the total deficiency payments for any crop of rice may be made "in kind," in rice.
- * Secretary must pay part (up to 50%) of expected 1986 deficiency payments in advance; in later years, payments are optional.
- * If growers underplant their permitted rice acres by 8% to 50%, they will get deficiency payments on the 8% to 50% underplanted acres that are devoted to nonprogram crops or conserving uses.
- * The gain from repaying loans at less than the loan rate is exempt from the \$50,000 payment limitation.

OTHER

1986-90

- * Secretary may require growers not to exceed bases for other crops.
- * Acreage base + ave. of planted or considered planted last 5 years (excluding zero plantings), but may not exceed average of the most recent 2 years (including zero plantings in those 2 years).
- * Program yield 1986-87 = average 1981-85 program yield (hi&lo) years out). In 1988-90 Secretary may phase in most recent actual yield.

OTHER COMMODITIES AND GENERAL PROVISIONS

WOOL AND MOHAIR

SUPPORTS: Extends the 1985 program through 1990.

SUGAR

SUPPORTS: 1986-90 sugarcane prices must be supported through nonrecourse loans at a level not less than 18¢/lb. for raw cane sugar. Sugar beets will be supported fairly in relation to sugarcane. Starting with the 1987 quota year, the President shall use all authorities to enable the Secretary to operate the program to avoid any cost to the Government by preventing the CCC from accumulating sugar.

PEANUTS

SUPPORTS: 1986 supports for domestic quota peanuts (for food and seed) will equal 1985 levels adjusted to reflect increases in 1981-85 farm costs. 1987-90 supports will be adjusted annually, but not more than 6% a year, to reflect increases in peanut production costs the preceding year. Supports for additional peanuts beyond the domestic quota will be set to ensure that the CCC doesn't have losses from the sale or disposal of those peanuts.

DOMESTIC QUOTA: Floor set at 1985 level of 1.1 mil tons annually for the next 5 years, but can be increased if domestic needs increase. New growth in the quota will be shared between old and new growers.

HONEY

SUPPORTS: 1986 supports will be reduced 1¢ to 64¢ and to 63¢ in 1987. In 1988-90 Secretary must reduce supports 5% per year, with a floor of 75% of 5-year average market price, high 10 years out.

MARKETING LOANS: The Secretary may allow producers to repay loans at less than the loan rate any year.

PAYMENT LIMITATIONS

CEILINGS: \$50,000 per person per year from deficiency payments made through wheat, feed grain, upland cotton, extra long staple cotton, and rice programs (\$100,000 limit on disaster payments).

CEILING EXEMPTION: The portion of payments resulting from discretionary and cost reduction programs; increase in deficiency payments because basic loans are cut in 1986 and cut by more than 5% a year in 1987-90; gains from repaying support loans at less than the loan rate; and resource adjustment payments.

LOAN DEFICIENCY PAYMENTS

FORGOING If a producer is eligible to obtain a loan on a commodity, but agrees not to take out such a loan, the producer may receive a payment based on the difference between the loan rate and the loan repayment rate on his eligible production, but not to exceed the program yield times the program acres.

FARMER OWNED GRAIN RESERVE

LIMITS: Program is extended with reserve holdings limited to 30% of estimated export and domestic disappearance in the marketing year for wheat and 15% for corn--but the Secretary may go up 10% more.